

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 EB-07 AID-05 IGA-02 L-03 H-02 CIAE-00

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

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R 031242Z AUG 76

FM AMEMBASSY CARACAS

TO USDOC WASHDC

INFO SECSTATE WASHDC 4211

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PASS TO OED/MEPD AND OIM

EO 11652 NA

TAGS: BENC

SUBJ: MAJOR PROJECT: RAILROAD

REF: CARACAS 8805

1. SUMMARY: CONSORTIUM TEAM MET JULY 28-29 WITH RAILROAD INSTITUTE FOR CLARIFYING DISCUSSION. PRIMARY CONCERN OF CONSORTIUM IS ONEROUS PERFORMANCE BONDING REQUIREMENTS AND FIXED PRICE BIDDING ON SUCH A MASSIVE PROJECT IN THE FACE OF VERY SORT SCHEDULES AND INADEQUATE TECHNICAL DATA. CONSORTIUM SUBMITTED LETTER TO RAILROAD INSTITUTE PROPOSING FLEXIBLE PRICING FORMULA. WITH REGARD TO PERFORMANCE BONDING, MORRISON-KNUDSEN REP INDICATED EXPOSURE IS MORE THAN US PRIVATE SECTOR WOULD WISH TO HANDLE. QUESTION ARISES WHETHER INASMUCH AS SOME OTHER BIDDERS MAY RELY ON NATIONAL GOVTS TO UNDERWRITE SURETY BOND, CAN USG HELP IN THIS AREA BY ORGANIZING UNDERWRITING SCHEME? END SUMMARY.

2. ACTION REQUEST: WASHINGTON ADDRESSEES REQUESTED INVESTIGATE POSSIBILITY OF PUTTING TOGETHER PERFORMANCE BONDING PACKAGE UNDER US GOVT AUSPICES.

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3. LAD BY FRANK H PEAHEY, VICE-PRESIDENT- LATIN AMERICA, OF MORRISON KNUDSEN AND N A BITTENBINDER, VICE-PRESIDENT, PULLMAN SWINDELL, A SIX MAN TEAM REPRESENTING THE US CONSORTIUM FOR THE RAILROAD PROJECT MET ON JULY 28 AND 29 WITH GENERAL MANAGER AGOSTINI (BRIEFLY) AND SECRETARY GENERAL LYON OF THE INSTITUTO AUTONOMO ADMINISTRACION FERROCARRILES DEL ESTADO AND STAFF MEMBERS. AGOSTINI OBSERVED THAT THE US CONSORTIUM HAD MATERIALIZED LATE IN THE GAME BUT EXPRESSED KEEN INTEREST IN RECEIVING A BID FROM US SOURCES. DISCUSSIONS COVERED VARIOUS ASPECTS OF BID PROCEDURES, PROJECT IMPLEMENTATION, PAYMENT, AND RIGHT-OF-WAY AND EQUIPMENT REQUIREMENTS, WITH TWO MAJOR PROBLEM AREAS EMERGING: PERFORMANCE BONDING AND FIXED PRICE BIDDING. BOTH PROBLEMS ARE OVERSHADOWED BY THE MASSIVE SIZE OF THE PROJECT, E G ABOUT ONE BILLION DOLLARS, THE VERY SHORT TIME TO COMPLETION (JAN 1981) AND THE LACK OF ADEQUATE TECHNICAL DATA FOR ESTIMATING PURPOSES.

4. PERFORMANCE BONDING REQUIREMENTS: PEAHEY CHARACTERIZED THESE AS "ONEROUS". (TOTAL EXPOSURE WOULD BE ABOUT DOLLARS THREE HUNDRED MILLION, ASSUMING TOTAL PROJECT COST OF ONE BILLION, ACCORDING TO PEAHEY). LYON'S REPLY, REITERATED SEVERAL TIMES, WAS THAT THE INSTITUTE REALIZED THAT THE PERFORMANCE BOND AND RETENTION OF PAYMENT REQUIREMENTS WERE SIZEABLE AND THAT THEY WOULD INEVITABLY INCREASE THE PROJECT COST. HOWEVER, THE INSTITUTE PREFERRED A HIGHER BID COST IN ORDER TO HAVE TOTAL ASSURANCE THAT ALL SEGMENTS OF THE PROJECT, RIGHT-OF-WAY CIVIL WORKS, ROLLING STOCK AND ENGINES, SIGNAL EQUIPMENT, MANAGEMENT ORGANIZATION, AND TRAINING OPERATIONS WOULD BE DELIVERED ON TIME. WHEN PEAHEY POINTED OUT THAT THE AMERICAN BIDDERS, AS PRIVATE COMPANIES, COULD NOT RELY ON USG SUPPORT EITHER FOR EXTENDING SURETY BONDS OR UNDERWRITING THEM, AS WOULD SOME OTHER NATION CONSORTIA, LYON REPLIED THAT ALTHOUGH OTHER GOVTS HAD EXPRESSED INTEREST IN THE PROJECT, HE WAS PRESENTLY UNAWARE OF THE DEGREE OF GOVT SUPPORT. WHEN PEAHEY REITERATED HIS CONCERN RE THE PERFORMANCE AND OTHER BONDING REQUIREMENTS, CITING THE LIMITED OFFICIAL USE

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HIGH COST OF TYING UP \$300 MILLION OF CREDIT FOR SEVERAL YEARS, LYON FIRMLY RESPONDED THAT ALL BIDDERS HAVE TO FACE THIS COST. WHEN PEAHEY ASKED WHETHER THE INSTITUTE WOULD ENTERTAIN BIDS THAT DO NOT MEET THE SPECIFICATIONS, LYON EQUALLY FIRMLY RESPONDED, "YOU WILL BE MAKING A MISTAKE IF YOU DO NOT BID ACCORDING TO OUR REQUIREMENTS. WE WILL CONSIDER ALTERNATIVES BUT NOT CONDITIONAL BIDS" FURTHER DISCUSSION LED TO LYON'S

AGREEMENT TO CONSIDER ANY REVISIONS IN THE BID PROCEDURES WHICH, IF ACCEPTED, WOULD HAVE TO BE COMMUNICATED TO THE OTHER CONSORTIA BEFORE SEP 15.

5. PEAVEY TOLD THE REPORTING OFFICER THAT MORRISON-KNUDSEN WOULD HAVE TO STRAIN ITS FINANCIAL CAPABILITIES TO ARRANGE SUCH A LARGE SURETY BOND AND SUGGESTED SOME FORM OF US GOVERNMENTAL ASSISTANCE WOULD BE NECESSARY IN THIS AREA.

6. FIXED COST BIDDING. A SERIES OF QUESTIONS PUT BY THE CONSORTIUM MEMBERS ESTABLISHED THE FOLLOWING FACTS:

A) THE RAILROAD PROJECT IS IN A CONCEPTUAL RATHER THAN FINAL DESIGN STAGE; B) A MOVIE OF THE ROUTE TAKEN FROM A HELICOPTER IS OF TOO POOR QUALITY TO BE USEFUL; C) THE AERIAL PHOTOGRAMETRIC SURVEY WILL ALLOW ONLY ONE TO FIVE THOUSAND SCALE ON THE PROFILE MAPS; D) NO AERIAL INFRARED SURVEY WAS MADE, NO SOIL SAMPLES TAKEN, AND NO DETAILED FIELD SURVEY MADE, WITH ONLY POINT TO POINT REFERENCES ESTABLISHED. QUARRIES AND BALLAST

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SOURCES HAVE NOT BEEN DETERMINED; E) NO DETAILED SURVEY OF DRAINAGE CONDITIONS HAVE BEEN MADE. THE REPRESENTATIVE OF INTERNATIONAL ENGINEERING (WILLIAM KELLEY, VP, LATIN AMERICA) POINTED OUT TO

LYON THAT IN VIEW OF THE NEED FOR FURTHER INFORMATION, IT WOULD BE DIFFICULT FOR ANY CONTRACTOR TO ESTIMATE COSTS ITEM BY ITEM WITH ANY CONFIDENCE. HE THEN DESCRIBED AN ALTERNATIVE APPROACH, TO DESIGN AND CONSTRUCT ALMOST SIMULTANEOUSLY, E G FAST TRACKING, BUT THE INSTITUTE STAFF DID NOT APPEAR TO GRASP THE CONCEPT. IN RESPONSE, LYON REITERATED THAT THE INSTITUTE REQUIRED FIRM FIXED PRICE ESTIMATES FOR DESIGN ENGINEERING AND EACH OF SEVERAL DOZEN SUB-SECTIONS OF THE CIVIL WORKS PORTION OF THE PROJECT, AS WELL AS FOR THE VARIOUS CATEGORIES OF EQUIPMENT AND SERVICES. A FORMULA FOR PERMISSIBLE ESCALATION OF LOCAL COSTS WOULD BE CONVEYED TO THE BIDDERS SHORTLY.

7. TARGET ESTIMATE PRICING FORMULA. SUBSEQUENT TO THE MEETINGS DESCRIBED ABOVE, PEAVEY TOLD THE EMBASSY THAT "THERE IS NO WAY WE ARE GOING TO BID A FIXED PRICE CONTRACT." HE WENT ON TO SAY THAT MK IS BEING ASKED TO TAKE THE LARGEST PART OF THE PROJECT, THE CIVIL WORKS, THE VERY PORTION THAT IS MOST SUBJECT TO ERRORS OF LIMITED OFFICIAL USE

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ESTIMATE AND, SINCE SUBSTANTIALLY ALL LOCAL COST, OST EXPOSED TO ELEMENTS OUT OF MK'S CONTROL. FOR INSTANCE, BECAUSE OF THE SHORT SCHEDULING, ALL THE CONSTRUCTION EQUIPMENT HAS TO BE ORDERED NOW FOR DELIVERY TO MULTIPLE WORK SITES. LACKING GOOD DATA ON EARTHMOVING REQUIREMENTS, THE ERROR IN ESTIMATE ON EQUIPMENT ALONE COULD BE UP TO ONE HUNDRED MILLION DOLLARS. IN CONTRAST, THE ROLLING STOCK, LOCOMOTIVES, AND SIGNAL EQUIPMENT ARE EASILY PRICED AS A PACKAGE AND THE ESCALATION CLAUSES ON FOREIGN-SOURCED EQUIPMENT ARE FARILY LIBERAL. THEREFORE, PEAVEY EXPRESSED THE INTENTION OF PROPOSING A MODIFIED BIDDING PROCEDURE TO THE INSTITUTE, TO WHICH BITTENBINDER OF PULLMAN NODDED AGREEMENT.

8. THAT PROPOSAL WAS SUBMITTED TO LYON JULY 30. THE TARGET PRICE ESTIMATE FORMULA INCLUDES THE FOLLOWING ELEMENTS:

- A) DESIGN ENGINEERING: ACTUAL COST PLUS OVERHEAD.
- B) LOCOMOTIVES, ROLLING STOCK, RAILS, SIGNAL AND COMMUNICATION EQUIPMENT AT FIXED PRICE PLUS TO BE AGREE ESCALATION FACTOR.
- C) CONSTRUCTION AND OTHER SERVICES BASED ON TARGET ESTIMATES, ADJUSTED BY INCREASES OR DECREASES IN WORKS REQUIREMENTS AND COST INFLATION, WITH FEES AS AN AGREED PERCENTAGE OF THE TARGET ESTIMATES, WITH PENALTIES AND PREMIUMS FOR FAILING OR BEATING THE ESTIMATES, AND MAXIMUM AND MINIMUM

TOTAL FEES.

D) MANAGEMENT AND TRAINING SERVICES TO BE AGREED SEPARATELY OR USING THE DESIGN ENGINEERING FORMULA. THE CONSORTIUM PROPPSAL CONCLUDED BY REQUESTING THAT THE INSTITUTE AUTHORIZE THE USE OF THIS BID PROCEDURE FOR ALL BIDDERS. ALTERNATIVELY, THE US CONSORTIUM WOULD PREPARE A BID AS ABOVE IF THE INSTITUTE AGREED TO GIVE IT EQUAL CONSIDERATION ALONG WITH THE BIDS SUBMITTED ON A DIFFERENT BASIS.

10. CONCLUSIONS: IN EMBASSY' OPINION, THE PRESSURE OF TIME ALONE PLUS ADMINISTRATIVE INERTIA MAY FORCE THE LIMITED OFFICIAL USE

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INSTITUTE INTO REJECTING THE US CONSVORTIUM'S BID PRPOSAL. WE VISUALIZE OUR ROLE AS THAT OF ATTEMPTING TO PERSUADE THE INSTITUTE OF THE VALIDITY OF THE TARGET PRICE ESTAMATE APPROACH. WE KNOW OF NO EXISTING USG PROGRAM WHICH COULD HELP THE CONSORTIUM SECURE THE NECESSARY PRIVATE COMMERCIAL SURETIES IN THE US(NOTE THAT THERE IS YET ANOTHER PROBLEM ARISING FROM THE REQUIREMENTS FOR LOCAL PARTICIPATION IN THE BONDING EXERCISE). WASHINGTON ADDRESSEES ARE REQUESTED TO CONSIDER POSSIBLE SOLUTIONS IN THIS AREA. DECONTROL UPON RECEIPT. VAKY

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